

Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company
Docket Nos. D.T.E. 02-24 and D.T.E. 02-25
Responses to the Department's Fourth Set of Information Requests

Request No. DTE 4-16:

Refer to Schedule MHC-11 (Electric). Please describe the nature of the entries "FAS 109 Accounting for Income Taxes-Federal" and "FAS 109 Accounting for Income Taxes-State," as found on lines 19 and 20.

Response:

In 1992 the Financial Accounting Standards Board issued Statement No. 109, "Accounting for Income Taxes" (SFAS 109). On January 1, 1992 the Company adopted the provisions of FAS 109. Prior to 1993, the Company recorded deferred income taxes under Accounting Principles Board Opinion No. 11. SFAS 109 requires the use of the asset/liability method of accounting for deferred income taxes on all temporary timing differences. When the Company adopted SFAS 109, it determined the deferred tax liability applicable to the differences between its tax balance sheet and its book balance sheet. It then compared the deferred tax liability calculated under SFAS 109 to the deferred taxes recorded on its books. The differences principally resulting for the prior flow through were grossed up to measure the revenue impact. The Company then recorded (1) these regulatory assets and liabilities, (2) the previously unrecorded deferred tax liability and (3) the deferred tax effect associated with SFAS 109 regulatory assets and liabilities, which are also temporary timing differences.

The "FAS 109 Accounting for Income Taxes-Federal" and the "FAS 109 Accounting for Income Taxes-State" shown on MHC-11 represents the accounting for deferred federal and state income taxes associated with the SFAS 109 net regulatory asset recorded on the Company's books as of December 31, 2001, and therefore is included in accumulated deferred income taxes for ratemaking purposes at Schedule MHC-11 (Electric).

Person Responsible: Mark H. Collin